

Message Text

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SUBJECT: DIRECT FOREIGN INVESTMENT IN JAPAN

1. SUMMARY: IN THE FIRST SUCH CASE SINCE THE JAPANESE CHEMICAL INDUSTRY WAS FULLY LIBERALIZED FOR DIRECT FOREIGN INVESTMENT IN APRIL

1973, DOW CHEMICAL HAS APPLIED TO THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) TO AMEND ITS ARTICLES OF INCORPORATION TO PERMIT CONSTRUCTION OF A WHOLLY OWNED CAUSTIC SODA PLANT IN HOKKAIDO USING A POLLUTION-FREE DIAPHRAGM PROCESS RATHER THAN THE HERETOFORE CONVENTIONAL MERCURY METHOD. IN THE INITIAL STAGE, CURRENTLY SCHEDULED FOR COMPLETION IN 1978, THE PLANT WOULD PRODUCE 360,000 MT OF CAUSIC SODA PER YEAR OR ABOUT 10 PERCENT OF JAPANESE DEMAND IN 1974. CAPACITY WOULD INCREASE INCREMENTALLY THEREAFTER TO A MAXIMUM OF 720,000 TONS, CURRENTLY PLANNED FOR 1980. END SUMMARY

2. LED BY 14 PRODUCERS IN HOKKAIDO, THE JAPAN CAUSTIC SODA INDUSTRY IS CAMPAIGNING VIGOROUSLY TO BLOCK DOW'S APPLICATION ON THE GROUNDS QH MANY OF THE 28 DOMESTIC FIRMS, HALF OF WHOM EMPLOY FEWER THAN 300 EMPLOYEES, WILL BE THREATENED WITH BANKRUPTCY AS RESULT OF DOW COMPETITION. THE INDUSTRY ARGUES THAT ADDITIONAL

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PRODUCTION BY DOW WILL AGGRAVATE AN ALREADY SEVERE

OVER-SUPPLY SITUATION IN THE DOMESTIC CAUSTIC SODA MARKET. TOTAL DOMESTIC CAPACITY (WITHOUT DOW) IS SCHEDULED TO REACH 5.5 MILLION TONS IN THE SPRING OF 1978, ALLEGEDLY SUFFICIENT TO MEET JAPAN'S NEEDS THROUGH 1985 AT AN ESTIMATED 4-5 PERCENT ANNUAL GROWTH RATE IN CAUSTIC SODA CONSUMPTION. IN ADDITION, THE INDUSTRY ARGUES THAT IT IS PARTICULARLY VULNERABLE TO FOREIGN COMPETITION AT THIS TIME BECAUSE MITI HAS IMPOSED A HEAVY FINANCIAL BURDEN (\$2.5 BILLION IS CLAIMED) BY REQUIRING COMPLETE CONVERSION TO THE POLLUTION FREE DIAPHRAGM METHOD BY MARCH 1978, TWO-THIRDS OF WHICH MUST BE COMPLETED BY THIS FALL.

3. DOW ASSERTS THAT THE 4-5 PERCENT DEMAND GROWTH FORECASTS (VS. AN HISTORICAL 11PERCENT) USED BY JAPANESE INDUSTRY ARE UNREALISTICALLY LOW. AT A MORE PROBABLE 7 PERCENT GROWTH RATE IN ANNUAL DEMAND FOR CAUSTIC (I.E., ONE PERCENT HIGHER THAN THE MOST FREQUENTLY ESTIMATED ANNUAL RATE OF INCREASE IN REAL GNP) DOW CALCULATES THAT IT WOULD HAVE ONLY ABOUT 8 PERCENT OF THE JAPANESE MARKET IN 1980 EVEN WITH A FULL 720,000 TON OUTPUT. EVEN THE MOST PESSIMISTIC SERIOUS JAPANESE FIGURES PLACE DOW'S MARKET SHARE AT 13 PERCENT IN 1980.

4. COMMENT: PRESS COVERAGE OF THE DOW APPLICATION AND THE INDUSTRY'S RESPONSE HAS BEEN EXTENSIVE BUT FAIRLY STRAIGHT FORWARD, WITH MOST ATTENTION FOCUSED ON POSSIBLE COMPROMISES BETWEEN DOW AND MITI ON TIMING, SCALE, ETC. MEANWHILE, OPPONENTS OF DOW APPLICATION ARE FOLLOWING TRADITIONAL COURSE, PRESENTING WORST-CASE SCENARIO OF THEIR OWN PROSPECTS FOR PRESS AND MITI CONSUMPTION. FEW COMMENTATORS SEEM TO THINK THAT MITI WILL REFUSE DOW'S APPLICATION OUTRIGHT. FOR THEIR PART, DOW REPRESENTATIVES HAVE TOLD US THEY ARE PREPARED TO COMPROMISE WITH MITI, IF FOR NO OTHER REASON THAN MITI CONTROLS THE IMPORTATION AND ALLOCATION OF SALT, AN ESSENTIAL INGREDIENT IN THE PRODUCTION OF CAUSTIC SODA.

WE WOULD RATE THE CHANCES GOOD FOR DOW'S APPLICATION BEING APPROVED, PROBABLY WITH SOME MINOR MODIFICATIONS.
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IN VIEW OF PUBLIC INDIGNATION OVER THE "MINAMATA" MERCURY POISONING CASE A FEW YEARS AGO, MITI MAY ACTUALLY WELCOME THE DOW PROJECT AS A MEANS OF KEEPING PRESSURE ON THE INDUSTRY TO CONVERT TO THE POLLUTION-FREE DIAPHRAGM METHOD OR TO RECENTLY DEVELOPED ION-EXCHANGE PROCESS.
SHOESMITH

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